Missouri Higher Education Loan Authority

Financial Statements for the
Years Ended June 30, 2004 and 2003 and
Independent Auditors' Report

MISSOURI HIGHER EDUCATION LOAN AUTHORITY

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MISSOURI HIGHER EDUCATION LOAN AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2004
(UNAUDITED)

THE AUTHORITY

The Missouri Higher Education Loan Authority (the "Authority") is one of the top ten holders and servicers of student loans in America. The Authority provides students with needed capital to finance their education through its partnerships with local, regional and nationwide lending institutions.

The Authority was created by the General Assembly of the State of Missouri through passage of HB 326, signed into law on June 15, 1981. The Authority was created in order to insure that all eligible post-secondary education students have access to guaranteed student loans. The act was amended, effective August 28, 1994, and again effective August 28, 2003 to provide the Authority with generally expanded powers to finance, acquire, and service student loans, including, but not limited to, those guaranteed or insured pursuant to the Higher Education Act. The passage of HB 221, effective August 28, 2003, allows the Authority to originate Parental Loans for Undergraduate Students (PLUS loans) and extends the date for repayment of bonds issued by the Authority from 30 to 40 years. The Bill also repeals sections of law setting restriction on variable-rate unsecured loans. The repeal of variable rate restrictions allows the Authority to restructure the rates assessed for the Supplemental and Qualified Institution Loan Programs.

The Authority is governed by a seven member Board of Directors, five of whom are appointed by the Governor of the State, subject to the advice and consent of the Senate of the State, and two others who are designated by statute, the State Commissioner of Higher Education and a member of the State Coordinating Board for Higher Education. During fiscal 2004 Michael Cummins was selected by the Board to serve as Executive Director and CEO of the Authority.

The Authority owns and services student loans established by the Higher Education Act under the Federal Family Education Loan Program (FFELP). Loans authorized under FFELP include Subsidized and Unsubsidized Stafford, Parental (PLUS), and Consolidation loans. The Authority also owns consolidated Health Education Assistance Loans (HEAL) established by the Public Health Service Act insured through the Department of Health and Human Services (HHS). In addition, the Authority is the lender, servicer and guarantor for supplemental loans made available predominantly to students in the Midwestern area who have reached the maximum available under the FFELP. There are several types of loans under the supplemental program providing for eligible borrowers attending eligible medical, law, undergraduate, technical, graduate, and pharmacy schools.

During fiscal year 2004, the Authority purchased/originated $1,574 million of gross principal student loans from a variety of financial institutions. This compares to $1,156 million gross principal during fiscal year 2003 representing a 36% increase in purchases over the previous fiscal year. The purchase activity less loan pay downs through borrower payment and consolidation payment collections resulted in a 28% growth in the overall portfolio.

The Authority is able to finance the purchase of student loans through the issuance of Taxable and Tax-Exempt Student Loan Revenue Bonds and recycled funds. During fiscal 2004 the Authority issued $1,200 million in Student Loan Revenue Bonds including, $1,025 million in Senior Series Taxable Auction Rate Bonds, $50 million in Subordinate Taxable Auction Rate Bonds, and $125 million in Senior Series Tax-Exempt Auction Rate Bonds. The fiscal 2004 issuance compares to $700 million in Student Loan Revenue

Bonds including, $650 million Senior Series Taxable Auction Rate Bonds and $50 million in Subordinate Series Taxable Auction Rate Bonds in the previous fiscal year.

Interest rate decreases have caused borrower interest revenues to dip slightly despite the increase in loans outstanding. However, a debt service decrease of 7% on an increase of net bonds payable of 38% has absorbed any lost interest revenue. As interest rates rise, the immediate affect to the Authority would be higher debt expense. Borrower interest rates will remain static through June 2005 but the Authority’s loan revenues will be leveraged by an increase in government subsidy.

This report includes three financial statements: the statements of net assets, the statements of revenues, expenses, and changes in net assets and the statements of cash flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board principles. The statements of net assets present the financial position of the Authority at the end of the fiscal year and includes all assets and liabilities of the Authority. The statements of revenues, expenses and changes in net assets present the Authority’s results of operations. The statements of cash flows provide a view of the sources and uses of the Authority’s cash resources.

CONDENSED FINANCIAL POSITION
(In thousands)

	2004	2003
Cash, cash equivalents and investments	$ 617,866	$ 271,698
Accrued interest receivable	61,666	52,839
Capital assets	14,899	15,453
Investments held by Trustee	13,445	14,959
Other	9,277	9,250
Student loans receivable	3,808,507	2,979,343
Total assets	$ 4,525,660	$ 3,343,542
Current liabilities	$ 23,898	$ 57,777
Long-term liabilities	4,315,456	3,135,016
Total liabilities	$ 4,339,354	$ 3,192,793
Invested in capital assets	$ 14,899	$ 15,453
Restricted	113,523	87,794
Unrestricted	57,884	47,502
Total net assets	$ 186,306	$ 150,749

MISSOURI HIGHER EDUCATION LOAN AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2004
(UNAUDITED)

CONDENSED OPERATING RESULTS
(In thousands)

	2004	2003
Interest on loans	$ 113,564	$ 112,763
Special allowance	21,820	16,272
Investment income	5,154	9,953
Total operating revenue	140,538	138,988
Bond expense	77,490	77,453
Administrative and general expense	29,712	25,882
Provision for (reduction of) arbitrage rebate liability	(2,221)	11,476
Total operating expense	104,981	114,811
Operating income	$ 35,557	$ 24,177

FINANCIAL ANALYSIS
2004 AS COMPARED TO 2003

Financial Position

Total assets increased $1,182 million compared to an increase in liabilities of $1,147 million resulting in an increase to the Authority’s net assets of $35 million or 24%. This increase compares to an increase of $24 million or 19% in fiscal 2003. The year-to-year increase is related to the reversal of a portion of the provision for arbitrage rebate during fiscal 2004.

Cash, cash equivalents, and investments increased by 127% to $617.9 million from $271.7 million in fiscal 2003. The increase in cash, cash equivalents, and investments was due to the issuance of $700 million in Student Loan Revenue Bonds in May of 2004. Accrued interest receivable is up 17% over the prior year and is a direct result of the increase in the student loan portfolio. Loans outstanding increased 28% from $2,979 million to $3,808 million reflecting the net purchase activity less loan paydowns during fiscal 2004.

Current liabilities decreased by $33.9 million due largely to the maturity of Student Loan Revenue Bonds during fiscal 2004. Long-term liabilities increased $1,180 million or 38%. The increase is a result of the issuance of new bonds offset by a decrease in arbitrage rebate liability through loan principal forgiven and reduction of the provision for arbitrate rebate, and the transfer of bonds payable from long-term to current liability during fiscal 2004. Bond proceeds from the $500 million issued in September 2003 had been used to purchase loans by April of 2004.

Operating Results

Total operating revenue was static from fiscal 2003 to fiscal 2004. Slight gains in student loan interest were realized as a result of portfolio growth and an increase in special allowance due to lower student loan interest rates during the fiscal year. For example, subsidized and unsubsidized Stafford loans made between October 1, 1998 and July 1, 2004, which are in status other than in-school, grace and deferment bear interest

at a rate equivalent to the 91-day T-Bill rate plus 2.30%, with a maximum rate of 8.25%. Loans made within the same period with in-school, grace and deferment status bear interest at a rate equivalent to the 91-day T-Bill rate plus 1.70%, with a maximum rate of 8.25%. During fiscal 2003 the rate on these loans set at 4.06% and 3.46% respectively. The rate on the same loans during fiscal 2004 was 3.42% and 2.82% respectively. PLUS Loans bear interest at a rate equivalent to the 91-day T-Bill rate plus 3.10%, with a maximum rate of 9%. The rates are adjusted annually on July 1 based on the 91-day T-Bill rate on the last auction date in May. The T-Bill rate used for fiscal 2004 is 1.12%. Consolidation Loans for which the application was received by an eligible lender on or after October 1, 1998 and prior to July 1, 2004, bear interest at a rate equal to the weighted average of the loans consolidated, rounded to the nearest higher one-eighth of 1%, with a maximum rate of 8.25%. In addition, the Authority offers rate reduction to borrowers who establish payments through automatic deduction and or qualify for rate reduction through the Carnahan Public Service Reward Program. The Carnahan Program provides rate reductions, and in some cases loan principal reduction or forgiveness for people who have chosen careers in public service in the state of Missouri including peace officers, teachers, social workers, military, nursing, and state government employees. During fiscal 2004 the Authority processed over $5.1 million in principal reductions from borrower accounts.

Increases in special allowance provided by the U.S. Secretary of Education to lenders participating in the Federal Family Education Loan Program are related to the decrease in interest rates. These gains were offset by decreases in investment income.

Total operating expense realized a 9% decrease, or $9.8 million. Though administrative and general expenses increased by $3.8 million it was offset by $13.7 million decrease in the provision for arbitrage. The increased participation in borrower benefits as well as the effect of converting a $50 million tax-exempt variable rate demand bond to fixed rate debt in May of 2003 contributed to the decrease in the arbitrage liability. Continued reductions in the interest rate market environment resulted in static cost of funds from fiscal 2003 to fiscal 2004 despite the additional bonds payable added during the year.

INDEPENDENT AUDITORS' REPORT

Board of Directors
Missouri Higher Education Loan Authority

We have audited the accompanying statements of net assets of the Missouri Higher Education Loan Authority (the "Authority") as of June 30, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the management of the Authority. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Missouri Higher Education Loan Authority, as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 1-4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

/s/ DELOITTE & TOUCHE LLP

St. Louis, Missouri
September 2, 2004

MISSOURI HIGHER EDUCATION LOAN AUTHORITY

STATEMENTS OF NET ASSETS
JUNE 30, 2004 AND 2003
(In thousands)

ASSETS	2004	2003
CURRENT ASSETS:		
Cash and cash equivalents:		
Restricted	$ 30,393	$ 30,743
Unrestricted	587,473	240,955
Total cash and cash equivalents	617,866	271,698
Investments held by Trustee—unrestricted	4,795	503
Student loans receivable	32,677	26,281
Accrued interest receivable:		
U.S. Secretary of Education:		
Interest subsidy	4,853	4,421
Special allowance	5,977	4,022
Investments held by Trustee	696	480
Student loans receivable	50,140	43,916
Miscellaneous receivables and prepaid expenses	923	1,610
Deferred charges	282	262
Total current assets	718,209	353,193
LONG-TERM ASSETS:		
Investments held by Trustee:		
Restricted	5,723	5,723
Unrestricted	2,927	8,733
Total investments held by Trustee	8,650	14,456
Student loans receivable (less allowance for doubtful loans—$2,173 in 2004 and $1,423 in 2003)	3,775,830	2,953,062
Prepaid pension expense	3,800	3,936
Deferred charges—at cost less accumulated amortization of $2,093 in 2004 and $1,875 in 2003	4,272	3,442
Capital assets—at cost less accumulated depreciation of $2,905 in 2004 and $3,025 in 2003	14,899	15,453
Total long-term assets	3,807,451	2,990,349
TOTAL	$4,525,660	$3,343,542

LIABILITIES AND NET ASSETS	2004	2003
CURRENT LIABILITIES:		
Bonds payable—net	$ 9,458	$ 45,150
Accrued interest payable	8,113	7,220
Other liabilities	6,327	5,407
Total current liabilities	23,898	57,777
LONG-TERM LIABILITIES:		
Bonds payable—net	4,278,041	3,090,044
Arbitrage rebate payable	37,415	44,972
Total long-term liabilities	4,315,456	3,135,016
Total liabilities	4,339,354	3,192,793
NET ASSETS:		
Invested in capital assets	14,899	15,453
Restricted	113,523	87,794
Unrestricted	57,884	47,502
Total net assets	186,306	150,749
TOTAL	$4,525,660	$3,343,542

See notes to financial statements.

MISSOURI HIGHER EDUCATION LOAN AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2004 AND 2003
(In thousands)

	2004	2003
OPERATING REVENUES:		
Interest on student loans	$ 95,944	$ 96,762
U.S. Secretary of Education:		
Interest subsidy	17,620	16,001
Special allowance	21,820	16,272
Investment income:		
Interest on cash equivalents and investments	4,003	7,898
Loss on investments held by Trustee	(109)	(181)
Loss on sale of investments	(30)	
Gain on sale of loans	916	1,892
Servicing fee income	374	344
Total operating revenues	140,538	138,988
OPERATING EXPENSES:		
Interest expense	58,696	63,232
Program participation fees	16,694	12,235
Salaries and employee benefits	15,777	13,448
Computer services	4,514	4,355
Postage and forms	2,595	2,247
Occupancy expense	1,260	1,537
Bond maintenance fees	1,094	989
Letter of credit fees	1,006	997
Depreciation	843	970
Professional fees	790	344
Provision for (reduction of) arbitrage rebate liability	(2,221)	11,476
Other operating expenses	3,933	2,981
Total operating expenses	104,981	114,811
CHANGE IN NET ASSETS	35,557	24,177
NET ASSETS—Beginning of year	150,749	126,572
NET ASSETS—End of year	$ 186,306	$ 150,749

See notes to financial statements.

MISSOURI HIGHER EDUCATION LOAN AUTHORITY

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003
(In thousands)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student loan and interest purchases	$(1,621,213)	$(1,195,947)
Student loan repayments	782,610	605,758
Cash received for sale of loans and interest	24,188	94,854
Payment to employees and vendors	(49,837)	(35,766)
Cash received for interest	115,825	109,244
Other	(116)	(419)
Net cash from operating activities	(748,543)	(422,276)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from issuance of bonds—net	1,194,992	695,975
Repayment of bonds	(44,558)	(22,627)
Repayment of line of credit		(95,000)
Interest paid on bonds and line of credit	(56,782)	(63,085)
Net cash from noncapital financing activities	1,093,652	515,263
CASH FLOWS FROM CAPITAL ACTIVITIES—		
Purchase of capital assets	(333)	(59)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments held by Trustee	1,392	273,800
Purchases of investments held by Trustee		(258,673)
Net cash from investing activities	1,392	15,127
CHANGE IN CASH AND CASH EQUIVALENTS	346,168	108,055
CASH AND CASH EQUIVALENTS—Beginning of year	271,698	163,643
CASH AND CASH EQUIVALENTS—End of year	$ 617,866	$ 271,698

(Continued)

MISSOURI HIGHER EDUCATION LOAN AUTHORITY

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003
(In thousands)

	2004	2003
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:		
Change in net assets	$ 35,557	$ 24,177
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization:		
Capital assets	843	970
Premium/discount on investments held by Trustee	(17)	(8)
Prepaid pension	136	187
Loan and bond charges	23,756	16,086
Interest expense	58,696	63,232
Loan write-offs	2,264	696
Provision for (reduction of) arbitrage rebate liability	(2,221)	11,476
Gain on sale of loans	916	1,892
Loss on investments held by Trustee	109	181
Loss on sale of investments	30	
Loss on disposal of capital assets	44	12
Change in assets and liabilities:		
Increase in student loans receivable	(860,230)	(541,517)
(Increase) decrease in accrued interest receivable	(8,827)	374
Increase in miscellaneous receivables and prepaid expenses	(319)	(1,535)
Arbitrage rebate payments	(200)	(299)
Increase in other liabilities	920	1,800
Total adjustments	(784,100)	(446,453)
Net cash used in operating activities	$ (748,543)	$ (422,276)

See notes to financial statements.

(Concluded)

1. DESCRIPTION OF THE ORGANIZATION

Legislation, which was signed into law on June 15, 1981 by the Governor of the State of Missouri and became effective on September 28, 1981, created the Missouri Higher Education Loan Authority (the "Authority") for the purpose of providing a secondary market for loans made under the Federal Family Education Loan Program provided for by the Higher Education Act. The Authority is assigned to the Missouri Department of Higher Education. However, by statute, the State of Missouri is in no way financially accountable for the Authority. Student loan revenue bonds outstanding are payable as specified in the resolutions authorizing the sale of bonds. The bonds are not payable from funds received from taxation and are not debts of the State of Missouri or any of its political subdivisions.

The Authority is the lender and guarantor for supplemental loans made available to students in the Midwestern region who have reached the maximum available under the Federal Family Education Loan Program provided under the Higher Education Act. The balance of these loans outstanding is approximately 3% of the total loan receivable balance.

Under the bond agreements from the various bond issuances, the Authority purchases loans from a variety of financial institutions with whom they have loan purchase commitments. Of the total remaining commitments at June 30, 2004, 97% are with ten financial institutions and their branches. The most significant financial institutions individually comprise 23%, 22% and 18% of the total remaining commitments. The Authority relies on these sources of loans to increase the loans owned by the Authority. Should any of these ten primary financial institutions cease business operations, the student loans would be originated by another financial institution or directly by the federal government. Management does not believe that the volume of loans purchased would be significantly impacted by lenders ceasing operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of Presentation and Accounting*—**In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,* as amended by Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus,* and modified by Statement No. 38, *Certain Financial Statement Disclosures*, the Authority's financial statements have been prepared on the basis of the governmental enterprise fund concept which pertains to financial activities that operate similarly to a private business enterprise. The Authority's funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. The Authority applies all applicable Financial Accounting Standards Board pronouncements which do not conflict with GASB pronouncements.

In accordance with the bond resolutions, the Authority utilizes fund accounting principles, whereby each fund is a separate set of self-balancing accounts. The assets of each bond fund are restricted pursuant to the bond resolutions. To accomplish the various public purpose loan programs empowered by its authorizing legislation and to conform with the bond and note resolutions and indentures, the Authority records financial activities in the various operating and bond related funds. The various bond funds are

combined as one segment for financial statement purposes (see Note 14). Administrative transactions and those loan transactions not associated with the Authority's bond issues are recorded in the Operating Fund. For financial statement presentation purposes, the funds have been aggregated into one proprietary fund type.

***Use of Estimates*—**The preparation of the Authority's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the statement of net assets dates and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the arbitrage rebate payable.

The Authority invests in various securities including U.S. government securities, and repurchase agreements. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets.

***Cash Equivalents*—**The Authority considers all investment securities with original maturities of less than 90 days at date of purchase to be cash equivalents. All cash equivalents whose proceeds are restricted for debt service reserve or the payment of rebate liabilities are classified as restricted cash equivalents (see Note 7).

***Investments Held by Trustee*—**Investment securities with original maturities of 90 days or greater are classified as investments held by Trustee. Investments with a remaining maturity of less than one year are considered current; all others are considered long-term. Investments are recorded at fair market value. In accordance with the bond resolutions, such investments consist of cash, securities of the Federal government or its agencies and repurchase agreements. The securities underlying the repurchase agreements are book entry securities. During the years ended June 30, 2004 and 2003, the securities were delivered by appropriate entry into a third-party custodian's account designated by the Authority under a written custodial agreement that explicitly recognizes the Authority's interest in the securities. All investments whose proceeds are restricted for debt service reserve or the payment of rebate liabilities are classified as restricted investments (see Note 7).

***Student Loans Receivable*—**Student loans receivable are stated at the principal amount outstanding adjusted for premiums. The related interest income generated from the loans is offset by premium amortization expense. Premiums on student loans are amortized over the estimated life of new loans purchased using a method that approximates the effective interest method. Because the Authority holds a large number of similar loans, the life of the loans can be estimated while considering expected amounts of prepayments from borrowers and loan consolidations. During the years ended June 30, 2004 and 2003, the estimated life of new loans purchased was three years. In addition, for the years ended June 30, 2004 and 2003, the Authority expensed all premiums for pools of loan purchases with less than $40 of initial premiums.

Interest on student loans is accrued based upon the actual principal amount outstanding. The U.S. Secretary of Education makes quarterly interest payments on subsidized loans until the student is required, under the provisions of the Higher Education Act, to begin repayment. Repayment must begin generally within six months after the student completes his or her course of study, leaves school, or ceases to carry at least one-half the normal full-time academic load as determined by the participating institution.

The U.S. Secretary of Education provides a special allowance to student loan owners participating in the Federal Family Education Loan Program. The special allowance amount is the result of applying a percentage, based upon the average bond equivalent rates of 91-day United States Treasury bills, to the average daily unpaid principal balance and capitalized interest of student loans held by the Authority. The special allowance is accrued as earned. For loans first disbursed from January 1, 2000, through June 30, 2004, the legislation changed the index to the three-month financial Commercial Paper ("CP") rate from the 91-day Treasury bill rate.

Miscellaneous Receivables and Prepaid Expenses—Miscellaneous receivables and prepaid expenses consist primarily of receivables from service bureaus, prepaid letter of credit fees and prepaid pension costs.

Deferred Charges—Deferred charges consist of bond issuance costs. Deferred charges are amortized over the life of the bonds using a method that produces substantially the same results as the effective interest method.

Capital Assets—Capital assets consist of land, building, office furniture and equipment, and leasehold improvements recorded at cost. The Authority's policy is to capitalize all expenditures in excess of $10. Depreciation is charged to operations on the straight-line method over the estimated useful lives of the related assets, which is 30 years for the building and generally five years for all other asset classes.

Net Assets—The net assets of the Authority are classified into three categories: unrestricted, restricted and invested in capital assets. Unrestricted net assets include net assets available for the operations of the Authority and activities not accounted for in the Bond Fund. Restricted net assets consist of the minimum collateral requirements discussed in Note 7, net of related liabilities, as defined in the bond resolutions. The assets invested in capital assets are discussed in Note 6.

Operating Revenues and Expenses—Bond and note issuance is the principal source of the funds necessary to carry out the purposes of the Authority, which are to originate and acquire student loans. The Authority's revenue is derived primarily from income on student loans, and secondarily, from investment income. The primary cost of the program is interest expense on bonds and notes outstanding. Therefore loan income, net investment income and interest expense are shown as operating revenues and expenses in the statements of revenue, expenses, and changes in net assets.

Income Taxes—The Authority is a body corporate and politic of the State of Missouri and is tax-exempt from federal and state income taxes.

Interest Expense—Interest expense primarily includes scheduled interest payments on bonds as well as accretion of bond discounts, broker commission fees, repricing fees and auction agent fees.

Bond Maintenance Fees—Bond maintenance fees consist primarily of rating agency fees, trustee fees and custodian fees.

Program Participation Fees—The Authority must remit each month to the U.S. Department of Education (the "Department") an interest payment rebate fee for all of its Federal consolidation loans made on or after October 1, 1993. This fee is equal to 1.05% per annum of the unpaid principal balance and accrued interest of the loans. For loans made from applications received during the period beginning October 1, 1998 through January 31, 1999, inclusive, this fee is equal to 0.62% per annum of the principal and accrued interest of the loans. In addition to the monthly payment, a 0.5% origination fee is paid to the Department on each consolidation loan made. Neither fee is charged to the borrower.

Risk Management—The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries. Coverage for these various risks of loss is obtained through commercial insurance. There has been no significant reduction in insurance coverage from coverage in the prior year for all categories of risk. Settlements have not exceeded insurance coverage for the past three fiscal years. Commercial insurance is purchased in an amount that is sufficient to cover the Authority's risk of loss. The Authority will record an estimated loss from a claim as an expense and a liability if it meets the following requirements: (1) information available before the financial statements are issued indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and (2) the amount of the loss can be reasonably estimated.

Reclassifications—Where appropriate, prior year's financial information has been reclassified to conform to current year presentation.

3. CASH AND CASH EQUIVALENTS

At June 30, 2004 and 2003, the Authority's carrying amount of deposits was $12,511 and $13,143. These deposits are classified in the type (1) credit risk category; type (1) deposits are insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

Cash equivalents are categorized into three categories of credit risk: (1) insured or registered, or securities held by the Authority or its agent in the Authority's name, (2) uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Authority's name or (3) uninsured and unregistered with securities held by the counterparty, or trust department or agent, but not in the Authority's name. Money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. At June 30, 2004 and 2003, the Authority's investment in money market funds totaled $605,355 and $258,555, respectively.

4. INVESTMENTS HELD BY TRUSTEE

Investments held by Trustee at June 30, 2004 and 2003 are summarized as follows:

	2004	2003
U.S. Treasury securities	$ 5,786	$ 5,867
Repurchase agreements	5,723	5,723
Treasury zero coupon investments	1,936	1,932
FNMA discount note		934
Mortgage-backed securities		503
Total	$ 13,445	$ 14,959

At June 30, 2004 and 2003, all investments are insured or registered, or securities held by the Authority or its agent in the Authority's name. All investments held as of June 30, 2004 and 2003 are category 1 investments, as defined in Note 3.

5. STUDENT LOANS RECEIVABLE

Student loans receivable are either insured by the Secretary of the United States Department of Health & Human Services (the Secretary of HHS), or by state organizations, namely the Missouri Department of Higher Education on behalf of the Coordinating Board for Higher Education (CBHE), the Student Loan Guarantee Foundation of Arkansas (SLGFA), United Student Aid Funds, Inc. (USA Funds),

Pennsylvania Higher Education Assistance Agency (PHEAA), the Tennessee Student Assistance Corporation (TSAC), the California Student Aid Commission (CSAC), the Illinois Student Assistance Commission (ISAC), the Nebraska Student Loan Program (NSLP), the Kentucky Higher Education Assistance Authority (KHEAA), the New York State Higher Education Services Corporation (HESC), the American Student Assistance (ASA), the Texas Guaranteed Student Loan Corporation (TGSLC), the Northwest Education Loan Association (NELA), the Rhode Island Higher Education Assistance Authority (RIHEAA), the Educational Credit Management Corporation (ECMC) or the Education Assistance Corporation (EAC), as to principal and accrued interest to the fullest extent allowed under current law. The supplemental loans are not federally insured.

Student loans receivable at June 30, 2004 and 2003 are as follows:

	2004	2003
CBHE	$1,430,265	$1,103,311
SLGFA	652,713	474,542
USA Funds	499,640	461,032
PHEAA	405,027	325,274
Secretary of HHS	191,598	206,672
TSAC	159,655	121,258
CSAC	92,086	58,290
ISAC	50,118	41,762
NSLP	55,109	22,541
KHEAA	58,127	42,874
HESC	30,551	12,241
ASA	27,761	7,394
TGSLC	18,002	6,903
NELA	5,111	2,290
RIHEAA	2,147	1,310
ECMC	3,350	1,028
EAC	3,246	60
Other	7,293	4,936
Total federal loans	3,691,799	2,893,718
Supplemental loans:		
Third party insured	40,575	44,237
Self-insured	78,306	42,811
Allowance for doubtful loans	(2,173)	(1,423)
Total supplemental loans	116,708	85,625
Total student loans receivable	$3,808,507	$2,979,343
Weighted average yield at end of year	4.46 %	5.05 %

6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004:

	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
Land	$ 3,304	$ -	$ -	$ 3,304
Depreciable capital assets:				
Building	11,499			11,499
Furniture and equipment	3,480	333	(812)	3,001
Leasehold improvements	195		(195)	
Total depreciable capital assets	15,174	333	(1,007)	14,500
Less accumulated depreciation	3,025	843	(963)	2,905
Net depreciable capital assets	12,149	(510)	(44)	11,595
Total	$ 15,453	$ (510)	$ (44)	$ 14,899

Capital asset activity for the year ended June 30, 2003:

	Beginning Balance	Additions/ Transfers	Retirements/ Transfers	Ending Balance
Land	$ 3,304	$ -	$ -	$ 3,304
Depreciable capital assets:				
Building	11,499			11,499
Furniture and equipment	3,449	59	(28)	3,480
Leasehold improvements	195			195
Total depreciable capital assets	15,143	59	(28)	15,174
Less accumulated depreciation	2,071	970	(16)	3,025
Net depreciable capital assets	13,072	(911)	(12)	12,149
Total	$ 16,376	$ (911)	$ (12)	$ 15,453

7. BONDS PAYABLE

The following table displays the aggregate changes in bonds payable for fiscal years ended June 30:

	2004	2003
Beginning bonds payable	$ 3,149,919	$ 2,472,546
Additional proceeds	1,200,000	700,000
Repayments	(44,558)	(22,627)
Ending bonds payable	$ 4,305,361	$ 3,149,919

Bonds payable at June 30 consist of:

	2004	2003
Student loan revenue bonds, variable interest rates ranging from 1.06% to 2.00% at June 30, 2004 and from 0.92% to 1.45% at June 30, 2003 maturing from 2005 to 2044	$4,118,131	$2,930,119
Student loan revenue bonds, fixed interest rates ranging from 4.10% to 6.75% at June 30, 2004 and 2.25% to 6.75%, at June 30, 2003, maturing through 2022	187,230	219,800
Gross student loan revenue bonds	4,305,361	3,149,919
Less unaccreted discount	17,862	14,725
Bonds payable—net	$4,287,499	$3,135,194
Weighted average rate	1.83 %	1.62 %

The following is a summary of debt service requirements at June 30:

Fiscal Year	Principal	Interest	Total
2005	$ 10,304	$ 68,063	$ 78,367
2006	57,172	67,553	124,725
2007	3,555	66,974	70,529
2008	4,400	66,455	70,855
2009	67,280	64,910	132,190
Total fiscal years 2005-2009	142,711	333,955	476,666
2010-2014	39,450	305,971	345,421
2015-2019	50,000	300,709	350,709
2020-2024	103,300	287,907	391,207
2025-2029	786,850	253,040	1,039,890
2030-2034	1,983,050	133,493	2,116,543
2035-2039	125,000	85,962	210,962
2040-2044	1,075,000	70,900	1,145,900
	$4,305,361	$1,771,937	$6,077,298

Variable student loan revenue bonds consist of variable rate bonds and auction rate certificates. Variable rate bonds bear interest at a rate determined by the remarketing agent. Such rate is determined on a weekly basis. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100% of the principal amount by adjusting the interest rate. The repricing fee is expensed as incurred and included within interest expense on the statements of revenues, expenses and changes in net assets. Auction rate certificates bear interest at the applicable auction rate as determined by a bidding process every 28 or 35 days as stipulated in the related Bond Agreement. The debt service requirements in the table above were prepared using the applicable variable rates on June 30, 2004 and may significantly differ from the rates paid in future periods. Fixed rate bonds pay interest at a rate specified in the related Bond Agreement.

Certain bonds are subject to redemption or rate period adjustment at the discretion of the Authority under certain conditions as set forth in the Bond Agreement. In addition, at June 30, 2004, $304,555 of the bonds are subordinate to the remainder of the outstanding bonds.

During 2003, in connection with the 1988A student loan revenue bonds, the Authority executed an agreement in which the interest rate was converted from a variable interest rate to a fixed interest rate.

Bonds of each series are secured by (a) a pledge of proceeds derived from the sale of the bonds, (b) eligible loans, and (c) certain accounts established by the respective bond resolutions, including monies and securities therein. For certain bonds, the Authority has entered into agreements with the Municipal Bond Investors Assurance Corporation, Bank of America N.A., State Street Bank and Trust and AMBAC Indemnity, whereby the parties have issued letters of credit or insurance policies to the Trustees as beneficiaries for the respective bondholders. The purpose of the letters of credit or insurance policies is to guarantee payment of the bonds upon maturity or earlier redemption. The agreements contain certain covenants which, among other requirements, include minimum collateral requirements. The Authority maintains a minimum amount of assets pledged under required bond resolutions. The total of all minimum requirements for all bond issuances at June 30, 2004 and 2003 is $4,409,737 and $3,235,002, respectively. At June 30, 2004, the Authority was in compliance with all financial covenants.

The respective bond resolutions establish the following special trust accounts for each bond series, unless otherwise indicated.

***Loan Accounts*—**The loan accounts are used to account for the proceeds of bond issues not required to be deposited in the debt service reserve accounts. Generally, amounts in the loan accounts may be expended (a) to finance Eligible student loans, (b) to pay bond issue costs, (c) to make deposits to the revenue accounts for the purpose of paying principal and/or interest on the bonds, and (d) to pay letter of credit fees.

***Revenue Accounts*—**The revenue accounts are used to account for all revenues received by the Authority. Generally, amounts in the revenue accounts are used (a) to make principal and/or interest payments on the bonds, (b) to fund debt service reserve accounts, (c) to pay estimated program expenses to the operating account, and (d) to reimburse the issuers of letters of credit guaranteeing the bonds for amounts borrowed under the letters of credit. Excess amounts in the revenue account may be transferred to the loan accounts or to optional redemption accounts.

***Operating Accounts*—**Amounts deposited in operating accounts are used to pay reasonable and necessary program expenses for the bond issues.

***Debt Service Reserve Accounts*—**Under the terms of certain bond provisions, minimum amounts are required to be maintained in the debt service reserve accounts for related bond series. The total of these minimum requirements at June 30, 2004 and 2003 were $32,739 and $37,367, respectively. These funds are only to be used to make principal and/or interest payments on the bonds and any interest due on the borrowed funds. In accordance with the bond provisions, the Authority has purchased a non-cancelable Surety Bond in lieu of cash deposits in the debt service reserve accounts for certain of the bond obligations in the amount of $6,930 and $7,038 at June 30, 2004 and 2003, respectively. Such Surety Bonds expire on the earlier of the bond maturity date or the date in which the Authority satisfies all required payments related to such bond obligations.

***Rebate Accounts*—**Amounts deposited in the rebate accounts are used to pay the United States Treasury amounts required by Section 148 of the Internal Revenue Code.

As of June 30, 2004 and 2003, cash, cash equivalents and investments were segregated as follows:

	June 30,	
	2004	2003
Special trust accounts:		
Unrestricted:		
Loan accounts	$ 520,282	$ 194,638
Revenue accounts	47,590	28,839
Restricted:		
Debt service reserve accounts	35,641	35,996
Rebate accounts	475	470
Total special trust accounts	603,988	259,943
Operating Fund:		
Unrestricted	17,872	17,737
Due to special trust accounts	9,451	8,977
Total operating fund	27,323	26,714
Total cash, cash equivalents and investments	$ 631,311	$ 286,657

8. LINE OF CREDIT

The Authority had available a $100,000 revolving line of credit which matured on January 27, 2003 and was not extended. This credit agreement charged an interest rate of LIBOR plus .45% payable monthly and was collateralized by the loans purchased with the line of credit.

The following table displays the aggregate changes in the line of credit borrowings for the year ended June 30, 2003:

Beginning balance	$ 95,000
Additional borrowings	
Repayments	(95,000)
Ending balance	$ -

9. CONTRACTS AND COMMITMENTS

The Authority leases certain equipment under a non-cancelable operating lease which expires in fiscal year 2005. The minimum rental commitment remaining under this lease is $11.

Total rent and leased equipment expense charged to operations amounted to $350 and $975 in 2004 and 2003, respectively.

The Authority has four contracts to utilize electronic data processing systems. One of those contracts matures on March 31, 2005, two mature on December 31, 2005, and the other contract remains intact until the serviced loans are paid in full or are transferred to another servicing system. The contracts provide for monthly charges based on the number of student loan accounts serviced and the amount of computer equipment supplied.

Charges incurred under the contracts for the years ended June 30, 2004 and 2003 are as follows:

	2004	2003
Charges based on loan accounts	$ 4,514	$ 4,334
Hardware rentals	21	21
Total	$ 4,493	$ 4,355

One of the state organizations which insures the Authority's student loans is permitted to charge students a guarantee fee of up to one percent on all Federal Family Educational Loan Program (FFELP) loans guaranteed by the organization. The Authority has resolved, that, provided the Authority in its sole determination is financially able, should the organization uniformly impose upon all FFELP participants that utilize its guarantee, the Authority will pay such guarantee fee on behalf of the borrowers for all loans which are purchased by the Authority. The Authority shall determine the scope of this pledge in its sole discretion.

The Authority has authorized an expenditure of a maximum of $550 in five equal annual installments beginning July 1, 2006 to support the University of Missouri – St. Louis GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs) Partnership (the "Partnership"), which provides need-based scholarships and grants to students seeking higher education. Actual expenditures may be less in the event funding for these grants and scholarships is obtained by members of the Partnership.

To the extent permitted under applicable law and in the event the following funds are unavailable from the Missouri Department of Higher Education (MDHE), the Authority has committed approximately $5,000 to assist MDHE in providing matching scholarship funds to eligible GEAR UP students. If such funds are unnecessary, then to the extent permitted by law, the Authority may use such funds to award scholarships to needy students or alternatively place said funds in a non-profit foundation for the purpose of funding early awareness and outreach activities to increase access to higher education.

The Authority and MDHE are currently exploring the feasibility of projects in which the Authority and the MDHE can work together to further the goal of increasing access to higher education for Missouri students and families. Current discussions include the creation of a non-profit foundation or other appropriate entity for the purpose of funding early awareness and outreach activities, including grants and scholarships for needy students, to increase access to and participation in higher education. If the agreement is finalized, both the Authority and MDHE would contribute funding to this new organization.

10. EMPLOYEE BENEFITS

The Authority maintains a single employer defined contribution plan, the Missouri Higher Education Loan Authority 401(k) Plan (the "401(k) Plan"), with investment management performed by Goldman Sachs and recordkeeping provided by ADP Inc., a wholly owned subsidiary of Automatic Data Processing, Inc., for all employees who are at least 21 years of age, and who work in excess of 1,000 hours per plan year, and who have been employed at least one year by the Authority. Employees may elect to defer 1% to 50% of their total compensation into the 401(k) Plan, not to exceed the limits defined in the 401(k) Plan. Sixteen investment fund options are available for choice by the employee. The Authority contributes an amount equal to 100% of the first 8% contributed by the employee. Employer matching funds are invested in the same fund choices made by the employee and are subject to a five-year vesting schedule. Some employer matching funds are offset by accumulated forfeiture credits. The Authority may make a non-matching contribution to the 401(k) Plan. The amount of this

contribution, if any, will be determined by the Authority when granted. To be eligible for the contribution, an employee must be credited with at least 1,000 hours of service and be employed on the last day of the 401(k) Plan year. During 2004 and 2003, the Authority contributed $480 and $543 and employees contributed $413 and $394 to the 401(k) Plan.

The Authority offers a noncontributory defined benefit pension plan, the Missouri Higher Education Loan Authority Pension Plan (the “Pension Plan”), to supplement the benefits provided under the defined contribution plan. The Pension Plan is administered by A.G. Edwards Trust Company. Employees vest in this Pension Plan after five years of service. A report of the Pension Plan may be obtained by writing to the Authority’s Pension Plan Administrator, 633 Spirit Drive, Chesterfield, Missouri 63005-1243 or by calling (636) 532-0600 with your request for a copy of the report of the Pension Plan. The Authority has elected to recognize prior service costs over a 25-year period which represents the estimated remaining service lives of the employees at the Pension Plan origination date.

Substantially all employees of the Authority are covered by the Pension Plan. Pension benefits are based upon the employee’s length of service and average compensation.

Pension Plan assets are invested primarily in growth and income stocks at the discretion of the trustee. During the current year the Authority contributed the actuarially determined minimum required funding. The annual required contribution for the years ended June 30, 2004, 2003 and 2002, was determined as part of the July 1, 2003, 2002 and 2001, respectively, actuarial valuations. The Authority’s policy is to contribute annually not less than the actuarially determined minimum required contribution determined by using the Aggregate Actuarial Cost Method. Because this method is used, the amortization is a level percentage of payroll over the average remaining service life of active members. Separate determination and amortization of the unfunded actuarial liability are not part of such method and are not required when that method is used.

The following tables detail the components of net periodic pension cost. The funded status of the Pension Plan as of June 30, 2004, 2003 and 2002, the amounts recognized in the Authority's financial statements, and major assumptions used to determine these amounts are as follows:

	2004	2003	2002
Change in plan assets:			
Fair value of plan assets at beginning of year	$ 10,274	$ 7,222	$ 5,941
Actual return on plan assets	1,162	681	(317)
Employer contributions	2,800	2,463	1,660
Benefits disbursed from plan assets (including expense charges)	(158)	(92)	(62)
Fair value of plan assets at the end of the year	14,078	10,274	7,222
Net pension obligation (NPO):			
NPO at beginning of year	(4,134)	(4,321)	(4,509)
Annual required contribution (ARC)	2,748	2,650	1,848
Contributions for year	(2,800)	(2,463)	(1,660)
NPO at end of year	(4,186)	(4,134)	(4,321)
Funding excess	$ 9,892	$ 6,140	$ 2,901
Percentage of ARC contributed	101.90 %	92.9 %	89.8 %
Major assumptions:			
Investment return	7 %	7 %	7 %
Inflation rate	4 %	4 %	4 %
Discount rate used for amortization of NPO	3 %	3 %	3 %
Salary scale	5 %	5 %	5 %
Amortization period (open) (years)	10.4	10.4	10
Cost method	Aggregate	Aggregate	Aggregate
Components of the ARC:			
Annual normal cost	$ 2,553	$ 2,463	$ 1,660
Interest	(290)	(303)	(315)
Adjustment	485	490	503
	$ 2,748	$ 2,650	$ 1,848
Annual covered payroll	$ 8,206	$ 7,727	$ 5,742
Annual pension cost	$ 2,748	$ 2,650	$ 1,848
ARC as a % of payroll	33.5 %	34.3 %	32.1 %
Funding excess to annual covered payroll	66.5 %	65.7 %	67.9 %
Funded ratio	336.3 %	248.5 %	167.1 %

11. STUDENT LOAN PURCHASE COMMITMENTS

In addition to the student loans already purchased, the Authority was contractually committed to primary lending institutions to purchase student loans under purchase agreements. These agreements require the lending institution to offer all student loans generated to the Authority; however, the Authority has the right to refuse the purchase. The average length of the purchase commitments is three years. Management intends to fulfill the commitments using funds held by the Trustee and funds generated

through the normal financing operations of the Authority. At June 30, 2004 and 2003, the Authority was servicing $784,902 and $631,597, respectively, in student loans for these and other lending institutions.

12. ARBITRAGE REBATE PAYABLE

In accordance with Section 148 and the regulations thereunder of the Internal Revenue Code of 1986, as amended, the Authority is required to pay to the United States Treasury certain amounts related to the Authority's tax-exempt bond issues. The amount required to be paid represents the excess of amounts earned over the interest cost of the tax-exempt borrowings. Non-purpose rebate payments are due every fifth year and when the bonds are retired. Purpose rebate payments are due every tenth year and every fifth year thereafter during the life of each bond issue and when the bonds are retired. The rebate calculation utilizes various assumptions and allows for the selection of alternative calculation options under the Code. Management estimates at June 30, 2004 and 2003, the liability to be $37,415 and $44,972, respectively, which has been provided for in the financial statements, however, the ultimate liability, if any, is dependent on investment yields and bond rates in the future.

The following table displays the aggregate changes in the arbitrage rebate payable for fiscal years ending June 30:

	2004	2003
Beginning balance	$ 44,972	$ 35,934
(Excess) additional liability	(2,221)	11,476
Student loan forgiveness	(5,136)	(2,139)
Payments	(200)	(299)
Ending balance	$ 37,415	$ 44,972

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*. The estimated fair value amounts have been determined by the Authority using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Authority could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The estimated fair values of the Authority's financial instruments are as follows:

	June 30, 2004		June 30, 2003	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
ASSETS:				
Cash and cash equivalents	$ 617,866	$ 617,866	$ 271,698	$ 271,698
Investments held by Trustee	13,445	13,445	14,959	14,959
Student loans receivable	3,808,507	3,860,199	2,979,343	3,018,734
LIABILITIES:				
Bonds payable—net	4,287,499	4,294,076	3,135,194	3,146,354
OFF-BALANCE SHEET INSTRUMENTS:				
Standby letters of credit		3,360		3,738

Cash and Cash Equivalents—For cash and cash equivalents, the carrying amount is a reasonable estimate of fair value.

Investments Held by Trustee—Investment securities are recorded at fair value.

Student Loans Receivable—Loans are categorized by repayment type (in-school, grace, repayment, and delinquent). The fair value is estimated using the Authority's current pricing policies; this estimated fair value approximates the amount for which similar loans could currently be purchased on the open market.

Bonds Payable—For fixed bonds, fair value was calculated from quoted market prices of the bonds. For variable rate bonds, the carrying amount is a reasonable estimate of fair value.

Standby Letters of Credit—The fair value is based on fees currently charged for similar agreements at the reporting date.

14. SEGMENT INFORMATION

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets, and liabilities that are required by an external party to be accounted for separately. The Authority has one segment that meets the reporting requirements of GASB Statement No. 34.

The outstanding bonds payable of the Authority consists of Student Loan Revenue Bonds. The Student Loan Revenue Bonds are issued in accordance with six separate General Student Loan Program Bond Resolutions adopted by the Board of Directors in various years from 1988 through 2004. The Resolutions provide that the bonds are payable from the eligible loans pledged under the Resolutions, amounts deposited in the accounts pledged under the Resolutions and all other revenues and recoveries of principal from the loans purchased with the bond proceeds.

Administrative transactions and those loan transactions not associated with the Authority's bond issues are recorded in the Operating Fund.

Summary financial information for the Student Loan Revenue Bonds as of June 30, 2004 and 2003, are as follows:

	2004		2003	
Condensed Statements of Net Assets	**Operating Fund**	**Bond Fund**	**Operating Fund**	**Bond Fund**
Assets:				
Current assets	$ 24,945	$ 693,264	$ 18,795	$ 334,398
Noncurrent assets	21,635	3,785,816	28,140	2,962,209
Total assets	$ 46,580	$ 4,479,080	$ 46,935	$ 3,296,607
Liabilities:				
Current liabilities	$ 4,445	$ 19,453	$ 5,332	$ 52,445
Noncurrent liabilities		4,315,456		3,135,016
Interfund payable (receivable)	24,327	(24,327)	21,190	(21,190)
Total liabilities	28,772	4,310,582	26,522	3,166,271
Net assets:				
Invested in capital assets	14,899		15,453	
Restricted		113,523		87,794
Unrestricted	2,909	54,975	4,960	42,542
Total net assets	17,808	168,498	20,413	130,336
Total liabilities and net assets	$ 46,580	$ 4,479,080	$ 46,935	$ 3,296,607
Condensed Statements of Revenues, Expenses and Changes in Net Assets				
Operating revenues	$ 446	$ 140,092	$ 983	$ 138,005
Operating expenses	3,051	101,930	2,942	111,869
Operating (loss) income	(2,605)	38,162	(1,959)	26,136
Interfund transfers			1,483	(1,483)
(Decrease) increase in net assets	(2,605)	38,162	(476)	24,653
Net assets, beginning of year	20,413	130,336	20,889	105,683
Net assets, end of year	$ 17,808	$ 168,498	$ 20,413	$ 130,336

	2004		2003	
Condensed Statements of Cash Flow	**Operating Fund**	**Bond Fund**	**Operating Fund**	**Bond Fund**
Net cash flows from operating activities	$ 1,063	$ (749,606)	$ 99,260	$ (521,367)
Net cash flows from non-capital financing activities		1,093,652	(95,180)	610,282
Net cash flows from capital activities	(333)		(59)	
Net cash flows from investing activities	1,392		(8,681)	23,800
Net increase (decrease) in cash and cash equivalents	2,122	344,046	(4,660)	112,715
Cash and cash equivalents, beginning of year	17,477	254,221	22,137	141,506
Cash and cash equivalents, end of year	$ 19,599	$ 598,267	$ 17,477	$ 254,221

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